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# **MULTIMEDIA UNIVERSITY**

## **FINAL EXAMINATION**

**TRIMESTER 1, 2018/2019**

**BLE2874 – LABOUR ECONOMICS**  
(Distance Education)

18 OCTOBER 2018  
9.00 a.m – 11.00 a.m  
(2 Hours)

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### **INSTRUCTIONS TO STUDENTS**

1. This question paper consists of **TWO (2)** printed pages with **FIVE (5)** structured questions excluding cover page.
2. Answer **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**ANSWER ALL QUESTIONS (100 Marks)****Question 1**

(a) Briefly discuss the concept of indifference curve, budget constraint line and utility maximisation point in the basic work-leisure decision model. (6 marks)

(b) Draw the basic work-leisure model diagram and identify the point where an individual worker is underemployed. (4 marks)

(c) Referring to Becker's model of the allocation of time, explain the rationale of the forward-rising segment of the labour supply curve, based on income and substitution effects. (10 marks)

**(Total: 20 marks)**

**Question 2**

(a) How does each of the following activity affect the equilibrium wage rate and level of employment in a particular labour market?

- (i) An increase in the wages in alternative occupations for which workers in a particular labour market are qualified.
- (ii) A decrease in the number of qualified suppliers of labour.
- (iii) A decrease in the labour productivity with product price is constant.
- (iv) An increase in the price of a gross substitute for labour.
- (v) An increase in income other than from employment.

(10 marks)

(b) Discuss the hiring decision rule by an individual firm to obtain the optimal level of employment. If the rule holes, does this results in an efficient allocation of labour? (4 marks)

(c) Discuss **TWO (2)** models based on efficiency wage payments where employers may find it profitable to pay wages above market clearing levels to workers possessing similar qualifications. (6 marks)

**(Total: 20 marks)**

**Continued...**

**Question 3**

(a) Discuss the monopoly union and efficient contract models. Which model is preferred by the union and firm?  
(14 marks)

(b) Explain **THREE (3)** conditions that make workers choose to join a labour union.  
(6 marks)  
**(Total: 20 marks)**

**Question 4**

(a) Discuss the theory of statistical discrimination by giving an example. Who are the gainers and losers?  
(10 marks)

(b) Explain the taste for discrimination model by giving an example. Who are the gainers and losers?  
(10 marks)  
**(Total: 20 marks)**

**Question 5**

(a) Explain how age, family factors and unemployment rates become part of the determinants of migration.  
(9 marks)

(b) Discuss **TWO (2)** ways how the wage differentials between two countries tend to narrow and reduce the extent of labour migration.  
(11 marks)  
**(Total: 20 marks)**

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